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S E C R E T SECTION 01 OF 02 BAGHDAD 001735

NOFORN
SIPDIS

E.O. 12958: DECL: 06/06/2018
TAGS: [ENRG](#) [KNNP](#) [PARM](#) [PREL](#) [CA](#) [IZ](#)
SUBJECT: TRANSPORTATION OF NATURAL URANIUM FROM TUWAITHA TO
CANADA

REF: A. SECSTATE 55887

[1](#)B. SECSTATE 55862

Classified By: CETI, AMBASSADOR C. RIES, for reasons 1.4(b),(d) and (e)

[1](#)1. (S/NF) Summary: The Government of Iraq (GOI) recently finalized a sales contract with Cameco for the approximately 550 metric tons of natural uranium that was being stored at the Tuwaitha Nuclear Research Center. To facilitate the sale, DOD removed the material from Iraq for onward shipment to Canada. While the USG has not shared the details of transportation plans with the GOI or Cameco, DOD representatives notified both parties of the commitment of the United States Government (USG) to provide the transportation for this operation, and informed them of a 90-day requirement from the date of contract signing for delivery of the material from Iraq to Canada. The USG learned only after the contract was formally executed by the GOI and Cameco, and after the transportation operation began, that the contract did not make accommodations for the required 90-day delivery period. In light of this recent misunderstanding, post should meet with the appropriate GOI officials as soon as possible to discuss the transportation of the material. End summary.

OBJECTIVES

[1](#)2. (S/REL IRAQ) Drawing from the information in paragraph three and the background as appropriate post should meet Iraqi officials at the highest appropriate level as soon as possible in order to inform the GOI that the United States cannot meet the June 15 deliver date specified in the GOI's contract with Cameco. Post should note that, per previous discussions with both Cameco and the GOI, the USG made clear that delivery would require a 90-day window from the date of the entry into force of the contract, although the USG is likely to complete the shipment in about 70 days.

[1](#)3. (S/REL IRAQ) Begin points:

- As previously discussed with Cameco and the GOI, we require 90 days from the date the contract was signed to deliver the material to Canada. The USG understood that all parties were aware of this limitation. The shipment is expected to be delivered on July 3, 2008, some 72 days from contract execution.

- The contract was not executed until April 21, and the parties did not adjust the contractual delivery date prior to signing the agreement, nor did either the GOI or Cameco consult us on the delivery dates.

- DOD has reviewed several alternate transportation options in an attempt to accelerate delivery; unfortunately, the delivery cannot be made any earlier than July 3.

- We understand that the GOI-Cameco contract includes a provision reducing the price to 86 percent of the spot market price after June 15. This is still an extremely lucrative deal for the GOI, and is still much higher than any other bid Iraq received for the uranium.

IF RAISED:

- The USG has invested USD 70 million to ensure the material was secured, packaged, and transported from Iraq to Canada. The USG has not attempted to recoup all of these costs from the GOI nor required the GOI to pay the full amount of these costs from the proceeds of the sale. However, USG and GOI have verbally agreed that GOI would contribute USD 14 m from the proceeds of its sale to Cameco to the USG in partial payment of the transport costs.

- Should GOI request USG compensate it for the diminution of GOI's sales proceeds from Cameco (estimated currently at USD 18 m) (alleged Delay Costs) due to delivery of the Yellow Cake after the sales Contract's 6/15 delivery deadline USG will discuss possible settlement alternatives with GOI. These settlement discussions will be time limited to facilitate closure of these matters within a reasonable period. (a) USG will start by explaining why USG is not responsible for the Delay Costs. (b) If USG is unable to achieve GOI agreement with approach (a) USG will offer (in full settlement of the matters) to split the Delay Costs 50/50 with GOI while continuing to require the USD 14 m cost-share payment from GOI. (c) Should USG's 50/50 settlement not be accepted by GOI USG will offer (in complete settlement of the matters) to waive its rights to the USD 14 m transport cost-share

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previously agreed to. If approach (c) is not acceptable to GOI USG will not offer any further compromise and will be prepared to defend itself against potential claims from GOI. In each of the above cases GOI will be responsible for a portion of the Delay Costs. In (a) GOI will absorb all the Delay Costs; in (b) it will cover 1/2 such Costs; or in (c) it will be responsible for USD 4 m of the estimated USD 18 m Delay Costs.

POINTS OF CONTACT AND REPORTING DEADLINE

14. (U) Post is requested to report GOI response to Washington as soon as possible. Department points of contact are ISN/RA Jody Daniel (202-647-9486) and NEA/I-PM Seth Schleicher (202-647-6172).

BACKGROUND

15. (S) On April 21, 2008, the GOI and Cameco signed a contract for the purchase of approximately 550 metric tons of natural uranium. Pursuant to an earlier agreement with the GOI, the United States agreed to handle the logistics for repackaging and transporting the material from the Tuwaitha Nuclear Research Center. While the details of the transportation plan have not been shared with either the GOI or Cameco due to operational security concerns, DOD reps had informed both Cameco and the GOI that DOD would need a 90-day window after the contract is finalized to move the material from Iraq to Canada. Early drafts of the contract included a 90-day window for delivery, so DOD assumed that when the contract was signed on April 21 the material was not due in Canada until July 21, 90 days thereafter. Only later did we learn that, under the terms of the contract, if the material arrives after June 15, Cameco will only have to pay 86 percent of the spot price at the time of delivery. Therefore, if the spot price of uranium remains steady, the GOI would receive approximately USD 18 million less for a

delivery after June 15. Given the recent volatility in the uranium market (the spot price of uranium has fallen over 30 percent in the last three months) the GOI could potentially lose more. As the GOI did not communicate to the USG the early arrival date required to avoid the price penalty and the USG is, in fact, delivering the material within the 90-day timeframe. Nonetheless, there are several factors favoring settlement of this matter. These include the threat of adverse public relations consequences should the press get wind of the details of this transaction; the ongoing USG national security interests in nuclear weapon non-proliferation especially regarding Iran, and the potential weaknesses in USG's defenses against a GOI claim for payment of the Delay Costs.

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